

Building Integrity and Reducing Corruption Risk in Defence Establishments

DEFENCE CORRUPTION RISK IN SUB-SAHARAN AFRICA

An analysis of data relating corruption in defence establishments to development outcomes

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EXECUTIVE SUMMARY

This paper analyses the links between corruption in the defence and security sectors and developmental outcomes in Sub-Saharan Africa (SSA). In addition to addressing the literature on defence corruption, this paper brings together original research commissioned by the UK Department for International Development (DFID), assessing the scale of the defence sector in SSA countries, the corruption risk in defence and security expenditure, the evidence that this is occurring in SSA countries, and the impact of corruption in defence and security on development outcomes.

There are two main findings. First, Sub-Saharan African countries in aggregate spend a relatively small amount on defence; a total of some \$8 billion to \$9 billion per annum. This is less than 1% of the global total spending on defence, and much less than individual developed nations; the UK for example, spends \$59 billion per annum. As a proportion of GDP, it is comparable to major developed countries, at 2.5%, though it is more significant as a proportion of government expenditure, at 8%. Developed countries, by contrast, tend to have a lower defence share. Individually, some African nations have substantially higher levels of defence expenditure as shares of government spending.

Second, despite the limited analysis and research to date, there is a growing body of evidence that corruption in defence expenditures and procurement is widespread in Sub-Saharan Africa. There is evidence in the literature that defence corruption may inflate defence budgets at the expense of other sectors. There is also evidence from the commissioned research of substantial adverse impacts of defence corruption on the prolonging of conflict, the quality of security provision, and the deleterious effects on governance. Of particular concern is the use of corruptly diverted defence budgets to fund political parties and re-elections.

Each has detrimental impacts on populations in developing countries and on wider development outcomes and growth. Publics lose trust in their governments, and corrupt officials and politicians cement their positions through patronage and through grand corruption, creating a vicious feedback mechanism which erodes governance and democratic life. The security services which protect the civilian population and guarantee human security become ineffective at best, and at worst predatory.

The underlying objective in carrying out this analysis is to articulate better the nature of defence corruption in this particular part of the world, and to serve as a basis for constructive measures by nations and by the international community to address the problem. Initiatives in other high-profile sectors, such as the Extractive Industries Transparency Initiative (EITI) in the oil industry and the Kimberley process in the diamond industry, suggest there is much scope for collective action from national governments, multilateral development agencies, private companies, and Non-Governmental Organisations (NGOs) to have a significant impact in improving development outcomes through addressing defence and security corruption risk.

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1 INTRODUCTION

"Defence and security is the last refuge of grand corruption in Africa".

John Githongo, former Permanent Secretary for Governance and Ethics,
Kenya

This analysis brings together current research on the impact of corruption in the defence sector on development outcomes, focusing on Sub-Saharan African countries. The paper developed out of work commissioned by DFID¹ to inform the thinking of a range of bodies involved in defence anti-corruption and integrity-building reform, including the World Bank, the African Development Bank, NATO, developing country governments, and civil society organisations active in the area.

The work emerges from concerns that corruption in defence can have an impact that spreads well beyond the immediate issue of the waste of defence resources. Besides the generally well-documented issues of political corruption, such as the use of defence funds as a source of re-election funding and the damage to the long-term prospects for economic development through disincentives to productive investment², defence corruption also brings specific risks of its own because of the special position which issues of national security are generally afforded by governments.

The paper is structured as follows. It begins with an overview of the defence sector in African countries as it relates to defence expenditures, production of defence equipment, defence procurement and financial management, and importing and exporting of defence equipment. The paper then considers the particular vulnerabilities of defence procurement and expenditures to corruption, and current research in this area. It then considers the impact of defence corruption on development outcomes with reference to the following: diversion of government expenditures towards defence and security; linkages between defence corruption and conflict; the impact of high levels of corruption on states' abilities to provide security; and effects on governance. Finally, it draws together these conclusions to propose that the problem of defence corruption warrants action on the part of nations in the region in concert with development agencies.

¹ In addition to reviewing current literature, this paper brings together original findings from five separate pieces of work:

'Corruption and Military Spending' by Professor John Hudson and Professor Philip Jones, Department of Economics and International Development, University of Bath.

'Military Expenditure, Procurement and Corruption in Africa' by Susan Willett

'Defence Expenditures, Procurement and Corruption in Sub-Saharan Africa' by Susan Willett

'Military Expenditure Data For Sub-Saharan African Nations' by Professor Keith Hartley, Centre for Defence Economics, University of York,

'Addressing defence corruption and building integrity', Transparency International (UK)

² For overviews, see: Bardhan P. 'Corruption and Development: A Review of Issues', *Journal of Economic Literature*, Vol. 35, No. 3. (Sep., 1997), pp. 1320-1346; Shleifer A. and R.W. Vishny 'Corruption', NBER Working Paper 4372, May 1993; Tanzo V. and H. Davoodi, 'Corruption, Public Investment, and Growth', IMF Working Paper WP/97/139, October 1997

2 BACKGROUND

The 2006 Development White Paper stated that the UK would build on the experience of the Extractive Industries Transparency Initiative (EITI) to help developing countries improve transparency and value for money in public procurement, and develop international proposals to increase scrutiny of public spending in the defence, construction, and health sectors, to help fight corruption.

In 2007 DFID began the first stage of work in a transparency in defence expenditures initiative, commissioning research to determine the developmental impact of corruption in defence and security expenditures and procurement in low-income countries.

The February 2000 IMF Working Paper by Gupta et al., 'Corruption and Military Spending', later published in 2001 in *The European Journal of Political Economy*, used statistical analysis to test whether there is a relationship between corruption and high levels of military spending. The analysis used panel regression techniques based on data for 120 countries in the period 1985-98. The results suggested that corruption is indeed associated with higher military spending as a share of both GDP and total government spending, as well as with arms procurement in relation to GDP and total government spending.

As part of its commissioned research, DFID sought to test and update the IMF report's findings. DFID contracted Professors John Hudson and Phillip Jones of the University of Bath to perform the statistical analysis. Additionally, papers were commissioned to provide quantitative and qualitative data on linkages between defence expenditure and corruption in Sub-Saharan Africa. The authors of these papers were Professor Keith Hartley of York University, Sue Willett of North-South Consultants, and the defence sector team at Transparency International (UK). In all, five source documents provided the data used to construct the current paper:

- Professor John Hudson and Professor Phillip Jones, 'Corruption and Military Spending'³, Department of Economics and International Development, University of Bath
- Susan Willett, 'Military Expenditure, Procurement and Corruption in Africa'
- Susan Willett, 'Defence Expenditures, Procurement and Corruption in Sub-Saharan Africa'
- Professor Keith Hartley, 'Military Expenditure Data For Sub-Saharan African Nations', Centre for Defence Economics, University of York

³ Hudson and Jones's results are to be published separately under the title 'Corruption and Military Expenditure: At No Cost to the King' in the *Journal of Defence and Peace Economics*, Vol. 19 (6), December 2008, pp 387-403. All references in the current paper are to Hudson and Jones's research as presented to DFID in 2007.

Transparency International (UK) 'Defence Corruption Risk in Sub-Saharan Africa', DRAFT, 05 November 2008

- Transparency International (UK), 'Addressing defence corruption and building integrity'

3 THE DEFENCE SECTOR IN SUB-SAHARAN AFRICAN COUNTRIES

Data on defence budgets, expenditure, and procurement is often opaque and incomplete, and these problems are especially acute in low-income countries. There are some sources of data available, for example from the annual SIPRI Yearbook⁴, or the WMEAT dataset⁵, or the CIA World Fact Book. However, at best these data sources provide a lower-bound estimate on defence spending. In his commissioned research, Professor Keith Hartley identified numerous practices which made determining the real as opposed to official defence expenditures difficult in Sub-Saharan African countries:

- i) Hidden defence budgets, possibly as a result of donor insistence that defence expenditures remain low⁶
- ii) Financing of defence procurements from non-defence budget resources – in some cases, Professor Hartley reported that the size of defence procurement expenditures exceeded the size of the defence budget itself
- iii) Non-governmental sources of income – this is particularly prevalent in conflict situations, where defence expenditures may be funded through other means
- iv) Poor financial management practices

As an exceptional case, data from South Africa is believed to be reliable. The result of the above problems is that the data which follows should be treated with caution, and is likely to underestimate the true underlying structure of the defence sector in sub-Saharan African countries.

In global terms, Sub-Saharan Africa unsurprisingly counts for only a small part of total military expenditure – while annual global defence expenditures are estimated to be over US\$1 trillion per year, Sub-Saharan Africa is estimated from official data to have a total annual defence budget of between US\$8 billion and US\$9 billion. This is about 0.8% of the global total – this rose slightly from 0.7% in 1997 to the 2006 figure of 0.8%⁷. The relevance of the patterns emerging from this data is questionable. Defence purchases by Sub-Saharan African countries are mostly transactions undertaken internationally (only South Africa has a meaningful domestic capacity or Defence Industrial Base, and even so it is fairly small and South Africa maintains a reliance on imports for its defence purchases), which makes constant prices in US dollars the relevant comparison in terms of analysing the structure of the global defence budget, but in terms of the size of defence expenditures within countries, a relatively small dollar amount at the prevailing exchange rate may

⁴ Stockholm International Peace Research Institute

⁵ World Military Expenditures and Arms Transfers, US Department of State

⁶ Indeed, there is ample evidence in the literature that donor insistence on the composition of government budgets is a futile exercise owing to the fungibility of budgets; see for example Ball N. and D. Hendrickson, 'Off-Budget Military Expenditure and Revenue: Issues and Policy Perspectives for Donors', Conflict, Security and Development Group (DFID and Kings College London), January 2002

⁷ Data based on SIPRI Yearbook 2007, at 2005 prices and exchange rates

translate into a large amount of expenditure in real terms in the domestic currency. Insights are best gained by considering the extent of defence spending within countries.

If we compare the absolute level of defence expenditure in SSA countries with that of the UK (which is a fair representation of many European countries' levels of defence expenditure), we find that the figure for the former is \$9 billion and the latter is \$59 billion. The immediate conclusion would be that the UK spends a lot more on defence than the whole of SSA. If we then compared defence expenditures as shares of GDP for 2005, the regional average for SSA is about 2.5%, while for the UK it is about 2.7%⁸. Again, the picture emerges that defence spending as a proportion of GDP is lower in SSA than in the UK⁹. However, if we compare the level of defence spending as a share of government expenditure, the pattern changes: for Sub-Saharan Africa, the defence share was 8% in 1999, compared to 6.9% for the UK in the same year¹⁰. See Annexe 3 for graphical representations of this comparison.

As the data on defence spending as a proportion of GDP and defence spending as a share of government expenditure are based on different source, there is some caution necessary.

If we consider the levels of defence expenditure within countries, no clear pattern emerges – some countries spend well above the average, and some spend well below. The two tables from Professor Hartley's report in Annexe 1 show defence expenditure as a proportion of GDP in SSA nations and defence expenditure as a share of government expenditure in SSA nations respectively. Countries which persistently devote high proportions of government expenditure to defence include Angola, Eritrea, Ethiopia, and Sudan; by the share of military expenditure in GDP, high outliers included Eritrea, Liberia, Burundi, and Angola.

In terms of trends, many countries make procurements several years apart to replace aging capital stock, which makes yearly comparisons of data somewhat difficult. There are also major exceptions to this practice, especially for nations involved in conflict that have high absolute values of imports. However, it is clear that defence expenditures, even according to these very limited data sources, have been increasing in Sub-Saharan Africa in recent years – according to the SIPRI data in the 2007 yearbook, for example, for the whole of Africa military expenditure over the period 1997-2006 increased by over 51% in real terms¹¹.

⁸ SIPRI Yearbook 2007

⁹ To complicate matters further, a different dataset, the CIA World Factbook figures as of 2007 suggested that defence expenditure as a share of GDP in SSA was actually at 4.18%, which is substantially different from the 2.5% quoted from the SIPRI data – for a lower-bound estimate only, the SIPRI data is preferable. In yet another estimate, this one substantially lower, the International Institute for Strategic Studies puts the 2006 regional estimate at 1.51%

¹⁰ WMEAT dataset – unfortunately, this dataset only continues up to 1999, and so later comparisons are not possible

¹¹ SIPRI (2007:282)

The WMEAT dataset concurs with the SIPRI data in suggesting that defence expenditure in Sub-Saharan Africa has been rising since 1990, taking the data up to its discontinuation in 1999. This rising trend of defence expenditure in Africa goes against the worldwide trend of decreasing expenditures over that period. From the SIPRI data, the increase in expenditures in SSA becomes more pronounced after the early 2000s. It is also striking to note that much of the data concerns defence expenditures in Sub-Saharan Africa which excludes defence procurements¹², meaning that the shares quoted above are lower-bound estimates – that is, if we take 2.5% to be the global share of defence expenditure in global GDP, and the lower bound estimate of Sub-Saharan Africa defence expenditure as a proportion of GDP also to be 2.5%, then the true underlying share of defence expenditure as a proportion of GDP may well be higher than the figure of 2.5% and thereby higher than the global average. Professor Hartley suggests that to gain more accurate figures as to the true underlying extent of defence budgets and expenditure in Sub-Saharan Africa, an in-depth study of governments in SSA countries and their national accounts would be required.

The major exporters of defence equipment to Sub-Saharan Africa are Russia, Germany, the UK, and China. Defence imports were dominated by aircraft. Internal trade of defence equipment, at least between governments¹³, was limited, with only South Africa's sales to Gabon and Senegal being noted by Professor Hartley as being of any significance.

Typically, defence purchase financing is complex, embracing cash payments, various forms of credit (which can be associated with future debt and interest rate problems), military aid, and barter trading including subsidised trade and free gifts. Transfer data should therefore be treated with caution. However, some generalisations can be made about defence purchase financing in Sub-Saharan Africa¹⁴. The 1950s and 1960s were periods when defence transfers were predominantly financed through military aid; during the 1970s and 1980s, defence imports were financed through increasing debt; and by the 1990s, suppliers increasingly required direct payments either in cash or barter goods, though the use of debt accumulation continued to play a role in financing defence expenditure in some cases. Data for Angola, for example, suggested its debt increased by \$1.8 billion between 1990 and 1994 because of defence imports (Brzoska 2004:121).

Recent trends suggest that military aid is again becoming a notable source of funding for defence procurement. The US Foreign Military Sales (FMS) programme is the process used by the US government to sell military equipment to foreign governments. FMS sales to African nations rose from \$39.2 million in FY2005 to \$59.8 million in FY2006 and were expected to fall to \$27.9 million in FY2007. The Foreign Military Financing programme is used to provide low-interest loans to foreign governments to finance purchases from the US government and US firms – for SSA nations, the US government

¹² Professor Hartley noted the significance of the extreme lack of transparency in defence procurement and the likelihood of this area being the focus of corruption

¹³ Illicit trade, for example in small arms, is not accounted for in the SIPRI dataset

¹⁴ The information in these paragraphs is taken from Professor Hartley's report

Transparency International (UK) 'Defence Corruption Risk in Sub-Saharan Africa', DRAFT, 05 November 2008

waives the repayment of its loans. For 2005-2007, the largest recipients of US defence sales and military loans in SSA were Djibouti, Ethiopia, Ghana, Kenya, Liberia, Nigeria, Rwanda, Senegal, South Africa, and Zambia.

4 OPPORTUNITIES FOR CORRUPTION

4.1 Literature on corruption and development

The means of achieving long-run economic growth is likely to remain a hotly contested issue, but in recent years the importance of the quality of governance and institutions to economic performance has been increasingly recognised and highlighted.

Since the early 1990s, the injurious effects of corruption on economic growth have been well-documented and empirically analysed by writers such as Mauro¹⁵, and increasing recognition of the problem of corruption as it affects development has been met with increased action from donors and international agencies.

Corruption is believed to affect economic growth and development in the following ways¹⁶:

- through providing disincentives to productive public and private investment through raising transaction costs and uncertainty in an economy, making domestic investors more reluctant to invest at home and more likely to move resources abroad, and decreasing the attractiveness of the country to foreign investors;
- in encouraging rent-seeking behaviour instead of productive entrepreneurship;
- through the loss of scarce government resources;
- through distortion of public spending towards capital-intensive projects and the decrease in productivity of those projects;
- and in worsening income distribution and poverty as the beneficiaries of corruption tend to be higher income groups while its costs fall disproportionately on lower income groups.

Corruption causes substantial damage to political life and the legitimacy of public institutions, eroding public trust. Corruption is theft from public resources, and its presence undermines the trust that the public places in political institutions. As these institutions rely on public trust for their authority and legitimacy, corruption severely undermines the ability of the state to maintain the public's faith. This has deleterious effects on the rule of the law and national institutional integrity, which in turn feed back negatively into the economic life of the country.

¹⁵ Mauro P. 'Corruption and Growth', *The Quarterly Journal of Economics*, August 1995; and Mauro P. 'Corruption and the composition of government expenditure', *Journal of Public Economics*, 69 (1998), 263-279

¹⁶ See, for example, the following papers: Bardhan P. 'Corruption and Development: A Review of Issues', *Journal of Economic Literature*, Vol. 35, No. 3. (Sep., 1997), pp. 1320-1346; Shleifer A. and R.W. Vishny 'Corruption', NBER Working Paper 4372, May 1993; Tanzo V. and H. Davoodi, 'Corruption, Public Investment, and Growth', IMF Working Paper WP/97/139, October 1997

4.2 Corruption vulnerabilities and defence

Defence expenditure and procurement in developing countries have specific vulnerabilities to corruption, which we can divide into sector-specific, process-specific, and purchase-specific.

Sector-specific

- The international defence sector is oligopolistic, composed of a small number of very large firms who wield high degrees of monopoly power and who are under intense pressure from shareholders and from exporting governments to win contracts which are relatively scarce – the sole legitimate purchasers of defence equipment are national governments, and competition for contracts is intense.
- Historical developments may have contributed to defence corruption. On the supply side, the end of the Cold War simultaneously reduced demand for defence equipment and increased competition between suppliers, who responded by aggressively marketing their wares, frequently resorting to bribery to secure deals (Gupta et al. 2000). On the demand side, opportunities for rent-seeking may have increased with the growing opacity of military procurement (see Section 5.2) and increasing closeness with the defence industry owing to the reduction in the number of suppliers from increased consolidation and concentration in the defence industry.
- The sector has historically been regarded as highly corrupt, with the use of agents and intermediaries being widespread and the payment of commissions regarded as the norm – the US Department of Commerce estimated in 2002 that the defence sector accounted for 50% of all bribery allegations, despite the sector's small share in international trade, and in Transparency International's Bribe Payers Index in 2002 respondents rated defence as the second most corrupt international business sector after construction and public works¹⁷.
- The exclusion of defence from many provisions of international trade agreements, allowing for example practices such as the use of offsets to prevail.

Process-specific – management of the defence sector:

- Partly as a legacy of the Cold War, the defence sector is still mostly protected from external scrutiny on the grounds of national security – this means that corruption within defence is difficult to detect and bring to account.
- There is little formal defence planning, and military budgeting is often ad-hoc. Further from this, accounting and auditing standards are generally poor, with little or no oversight of financial management or of procurement by external auditors or agencies or even by parliamentary bodies. It is often the case that when public finances and budgeting are reviewed as part of financial management initiatives with international organisations, such as IMF consultations, or the Public Expenditure Financial Assessment (PEFA) led by the World Bank, defence is excluded from review.

¹⁷ Transparency International Bribe Payer's Index 2002 survey
http://www.transparency.org/policy_research/surveys_indices/bpi/bpi_2002#sectors

- There can be substantial deviation between approved budget and actual expenditure.

Purchase-specific:

- Defence purchases are typically large, capital-intensive, and highly specialised and technical – this makes irregularities hard to detect, especially for those without technical knowledge.
- In some cases, defence officials can circumvent oversight mechanisms in procurement laws through either recourse to national security exemptions, or through making use of provisions for 'urgent' procurement needs.

4.3 The specific effects of defence corruption

Corruption in the defence sector may be expected to have the same injurious effects on development as described in the first part of this section, namely through negative effects on the investment climate, distortions to the composition of government spending, loss of resources, worsening income distribution, and corrosion of political institutions and the rule of law. There are also specific risks from defence corruption which amplify its harmful impact on developmental outcomes.

4.3.1 Government Resources

In terms of government spending, the defence sector offers an attractive area through which predatory governments or corrupt officials can gain enrichment. The secrecy of the sector and the complex nature of defence purchases may encourage governments to direct funds towards defence expenditures with associated opportunity costs of expenditure elsewhere. Defence spending need not of itself be unproductive, but if resources are wasted to corruption then losses may occur. Aizenman and Glick¹⁸ investigated the effects of military expenditure on economic growth within countries, with their results suggesting that the impact may depend on the level of corruption in the country – in countries with high corruption and weak governance, defence expenditure was suggested to have a negative impact on economic growth.

Diversion of resources towards defence from other areas, such as social spending, is also a likely possibility. However, gathering empirical evidence on this subject can be very difficult to test owing both to technical difficulties involved in analysing government determination of budgets, and to the difficulties of obtaining reliable estimates of levels of defence expenditure. Theoretically, a very large dataset of time-series observations of detailed levels of expenditure and of levels of corruption would be needed, but the latter is at present impossible to construct objectively and the former is often unreliable for low-income countries.

4.3.2 Effects on the Security Sector

¹⁸ Aizenman J. and R. Glick, 'Military Expenditure, Threats, and Growth', FRBSF Working Paper #2003-08

Perhaps more tangible is the effect within the defence and security sector of a prevalence of corruption. In defence procurement, a system characterised by corruption is associated with inappropriate decision making on contracts, resulting in the purchase of inferior or inappropriate equipment. This reflects poor value for money, detracting from operational effectiveness and from the state's ability to guarantee human security and right to life of its citizens, and may needlessly inflate the government's defence expenditures. Government investment in defence expenditure may increase while the productivity of that investment decreases.

Corruption in defence procurement results in the maladministration of defence resources and the evolution of a security sector that undermines public confidence. This renders the armed forces – and their contributions to peace-support operations – less effective. It also encourages an ethos of corruption throughout the military, including the lower ranks who often abuse their position by imposing capricious bribes and taxes on the civilian population, creating a predatory relationship between the military and the public. From the economic literature (eg, Shleifer and Vishny 1993¹⁹, Easterly 2001²⁰), it is believed that petty bribery, while less dramatic than grand corruption, can also have pervasive effects in undermining economic relations by raising transaction costs on activities; indeed, such decentralised corruption if widespread may turn out to be more harmful than centralised corruption, as the uncertainty associated with decentralised corruption is higher, which in turn raises transaction costs. The wider consequence is that in undermining public faith in the armed forces, the wider security services, and by extension the state, the process of state-building and development of strong public institutions is further held back. Corruption at the highest level cascades down to those on the ground.

4.3.3 Governance

Transparency International have put forward numerous arguments stating that the effects of defence corruption on governance and state institutions are substantial and deserving of attention.

One of the concerns raised by Transparency International's defence sector team is the potential for the defence sector to act as a broader conduit for corrupt activities. While anti-corruption and governance reform have both become mainstream focuses in developing countries in recent years, there is a concern that owing to the sensitive nature of defence and other issues related to national security, the defence sector has been excluded for the most part from efforts to improve financial and management procedures, increase transparency, and provide effective and credible external oversight and accountability of budgeting, planning, and spending. The combination of complexity, large sums of money, and justifiable secrecy make defence a key means by which grand corruption can still occur, maintaining the networks of corrupt intermediaries, accountants, and lawyers necessary for corruption. Anti-corruption reform and institution-building are worthwhile activities which

¹⁹ Shleifer A. and R.W. Vishny 'Corruption', NBER Working Paper 4372, May 1993

²⁰ Easterly W. (2001) *The Elusive Quest for Growth: Economists' Adventures and Misadventures in the Tropics*, London: MIT Press

over the long term could lead to drastic improvements in opportunities for economic growth and poverty reduction; in allowing grand corruption to continue in defence, the effects may spillover into the rest of government and undermine efforts to improve public institutions.

One of the most important effects to consider is the link between corruption and the funding of political parties. Corruption can be an important source of funding for parties in government seeking re-election – the costs of fighting elections are high, and the prizes from office even higher. In the United States, the electoral process used to be known as “the spoils”: to win was to gain the right to office and the attendant personal benefits it can carry. This can create a feedback: parties or individuals within parties seek office for enrichment through corruption, and then maintain their power through engaging in further corruption to fund election campaigns. This may be becoming more difficult if governance is improving in developing countries, but again if defence is left out of the reform process then it leaves open a prime means by which illicit enrichment can occur. Defence is particularly suited as a source of corruption for the purpose of funding political parties: procurements can be infrequent, can be funded outside of the main defence budget, and can be made at the discretion of high-ranking government officials while avoiding scrutiny. A large defence purchase during the run-up to an election provides ample means for securing funds.

The effects should be clear. Corrupt governments are predatory, operating outside the public interest and pursuing goals to benefit themselves. Maintaining such governments requires spreading the benefits of corruption far enough along lines of patronage so as to stabilise power relations. The use of corruption to fund re-election undermines the development of democratic institutions in already fragile environments, and further detracts from the quality of governance and public life – eventually, all the gains from anti-corruption and governance reforms in other areas of government can be wiped out through the prevalence of corruption in the defence sector. Thus an incomplete or insufficient reform package from which the defence and security sectors are excluded may immediately alleviate corruption but in time allows the level of corruption to return to its initial high level.

4.3.4 Conflict, Corruption, and Defence

Corruption in defence procurement and the broader military and security sectors has the potential to exacerbate or prolong conflict. Corruption can become embedded in the fabric of conflict, both in state militaries and non-state rebels²¹. The common practice of military patronage through corruption ensures commanders have an interest in continued conflict, offering some stakeholders the opportunity to enrich themselves and thus providing disincentives to ending conflict.

²¹ The information in this and the following paragraph is taken from a forthcoming paper from Transparency International (UK), entitled 'Addressing corruption and building integrity in defence establishments: Focus on Africa'

The long-run impact of the twin disasters of conflict and corruption can be one of violence and crime. Collier²² describes a hitherto unexplored phenomenon relating to the long-term impact of conflict and the defence and security sector. During conflict guns become cheap as large numbers are imported through official or semi-official channels, with a proportion leaking onto the informal market. This results in a legacy of cheap and widely available weapons in the country long after conflict has ended. In turn, this has a detrimental impact on levels of violence and murder within the country, carrying a high human cost and undermining attempts to establish the rule of law.

The economic consequences of prolonged conflict can also be enormous. DFID's 2006 policy paper 'Preventing Violent Conflict' points out that, 'The average cost of one conflict is nearly equivalent to the value of annual development aid worldwide'²³.

²² Collier P. (2007) *The Bottom Billion: Why the Poor are Failing and What Can Be Done About It*, Oxford: Oxford University Press

²³ DFID, 'Preventing Violent Conflict', 2006, pp 1

5 DEFENCE CORRUPTION IN SUB-SAHARAN AFRICA

The above arguments as to the importance of defence corruption can be tested empirically. In this section of the paper, we first assess qualitative evidence on defence corruption in the areas of procurement, budgeting and scrutiny, and offsets based on case study material. In the following section, we examine the extent of quantitative evidence on defence corruption by reviewing the academic literature which exists on the subject and the work conducted by Professors Hudson and Jones on behalf of DFID.

5.1 Procurement

There have been a number of high-profile cases where corruption in defence procurement has been suspected, including in Uganda, South Africa, and Tanzania. Box 1, based on Willett (2007a), illustrates one example how defence procurements in Sub-Saharan Africa can be effected by corruption with reference to a Tanzanian air traffic control procurement from the UK in 2001.

Box 1

Case Study: Tanzania Air Traffic Control

In 2002, it was reported in the UK media that the UK government had granted an export license to BAE Systems for the sale of a US\$40 million air traffic control system to Tanzania. The decision was widely criticised in media reports (eg. BBC 2002, Guardian 2002), citing the recent granting of debt relief worth US\$3 billion to Tanzania and a report from the International Civil Aviation Organization which was said to have condemned the air traffic control system for being expensive and inappropriate to Tanzania's need. The World Bank was amongst the organisations which voiced dissatisfaction at the purchase, as were some members of the UK Cabinet. Among the criticisms directed at the system purchased were that it was based on military rather than civilian technology and would require substantial and expensive revisions to make it suitable, and that a civilian system could have been purchased for a cost four or five times lower than the military system; the UK government came in for sharp criticism for its role in granting the export license, as did the Tanzanian government for making the purchase. The Secretary of State for International Development in the UK briefly suspended budget support to Tanzania at the time over concerns that Tanzania would not meet poverty-reduction goals.

It later emerged that there were allegations of corruption in the transaction. Specifically, allegations have centred on a possible bribe worth US\$12 million paid to government procurement officials. If such bribes were paid, this would support the argument that the prospect of gaining from corruption can cause officials to make procurements on the basis of maximising their bribes rather than on the basis of public need. The purchase has been under investigation both in Tanzania, where former senior ministers have been implicated (see BBC 2008), and in the UK where as of November 2008 the deal has been under investigation by the Serious Fraud Office.

Other worrying aspects of the case concerned the lack of information Tanzanian Parliamentarians had in relation to the purchase. In Willett's report, it is stated that Tanzanian Parliamentarians only learned of the contract when reports surfaced in the UK media, suggesting a lack of reporting to Parliament on the purchase and consequently a lack of means of scrutinising a high-value contract in which integrity was clearly an issue. Further, Willett's states that the 2001-2002 public expenditure review did not address the issue, despite the size of the purchase and the controversy that emerged in relation to it. Civil society groups issued a statement in February 2002 calling for wider participation in future procurement decisions, in relation to the potential that such large purchases could cause Tanzania to incur substantial debt.

Budget support from the UK was resumed in mid-2002 after Tanzanian President promised the UK Secretary of State for International Development that future public spending decisions would received a higher level of scrutiny. Mkapa also began negotiations with BAE Systems to reduce the price of the overall deal. The UK Arms Export Control Bill was amended to include sustainable development as one of the criteria for agreeing to future export licenses.

See the BBC reports 'Tanzania could seek radar refund' (02 February 2007, available at <http://news.bbc.co.uk/1/hi/world/africa/6324169.stm>), 'Tanzania radar sale "waste of cash" (14 June 2002, available at http://news.bbc.co.uk/1/hi/uk_politics/2044206.stm), and 'Tanzanian minister quits office' (21 April 2008, available at <http://news.bbc.co.uk/1/hi/world/africa/7357976.stm>), and The Guardian's report 'Tanzania aviation deal "a waste of money"' (14 June 2002, <http://www.guardian.co.uk/uk/2002/jun/14/politics.tanzania>) for details of the case.

5.2 Budgeting and Scrutiny

In this section, we consider the extent to which defence budgets are controlled and subject to standards of internal and external scrutiny in Sub-Saharan Africa.

Professor Hartley's report commented on the extent to which government-approved defence budgets deviate from actual defence expenditures for a sample of eight countries²⁴. The deviation is the extent by which actual expenditures exceeded planned expenditures. Typical deviations were noted to be above 20% for Ghana, Kenya, Mali, and Nigeria, and in the case of Ethiopia in 1999, reaching a deviation of 133%; by contrast, South Africa and Mozambique had low deviations, signalling they managed to keep actual expenditures close to planned expenditures.

Hartley noted that the official data on military and defence budgets typically understated the extent of actual expenditure, suggesting this may owe to *deliberate manipulation of military expenditure figures and the use of off-budget spending*. Quoting Omitoogun and Hutchful²⁵, Hartley suggested this owed to governments wishing to hide the true costs of defence activities from both the general public and international donors who make aid conditional on low military budgets. Concealment of military expenditures was suggested to be characteristic of most aid-dependent nations in the Omitoogun and Hutchful study.

Additionally, in Sue Willett's (2007a) report, it was noted that donor insistence on reducing military expenditures in SSA had the effect of pushing expenditures off-budget²⁶ – official budgets tend to be very close to donor demands. Willett (2007a, quoting Omitoogun 2003 and Omitoogun and Hutchful 2006) contends that defence budgets in SSA nations have become more opaque in the last decade, following donor insistence in the 1990s that military expenditure above 2% was 'excessive'. The net effect was to push much security and defence spending off-budget, and in addition, the narrow focus on levels of expenditure caused donors to ignore whether states had the capacity to carry out proper accounting and auditing procedures, an essential requirement if military budgets are to be properly managed, and critical to processes of transparency, oversight, and accountability in military affairs (Omitoogun and Hutchful 2006, cf Willett 2007a). These conclusions were reinforced by Ball and Hendrickson (2002), who argued through case studies such as Uganda that donor focus on levels of expenditures creates an incentive for governments to resort to 'creative accounting' measures to control expenditures, in effect pushing them off-budget.

There is also evidence to suggest that the use of off-budget means of financing defence expenditure becomes far more prevalent in countries involved in conflict. During conflict, the financing of military activities often

²⁴ Hartley's comments were based on a study in Omitoogun W. and E. Hutchful (2006) *Budgeting for the Military Sector in Africa*, SIPRI, Oxford: Oxford University Press, pp 252

²⁵ Ibid.

²⁶ For Sue Willett's typology of sources of off-budget expenditure, see Annexe 1

takes extraordinary forms. In nations with valuable natural resources (e.g. diamonds, oil, copper), military campaigns and defence procurement are often funded through the predation of resources. Wars are also funded through looting and robbery, illegal trading, external assistance from overseas nationals and foreign governments, or through the diversion of humanitarian assistance:

- In Sudan, there were estimates²⁷ that at times the government spent over 50% of the state budget every year on the north-south civil war. If correct, it is estimated that the military expenditure of Sudan would be four times higher than officially reported annual figures since 1989 (Omitoogun, 2000).
- The border wars between Ethiopia and Eritrea have entailed great expense. Both countries have had to resort to extra-budgetary measures to support their war efforts. Ethiopia diverted the proceeds from the privatisation of state companies and also reduced its allocations to other sectors of the economy, such as road repairs. A 10% surtax was imposed on some imports and the war worsened the food situation in Ethiopia by depriving the country of labour in the north, as men were attracted to enlist for the war by the relatively high wages. Officially, in 1997 and 1998, military spending was 3.2% and 3.5% of GDP, respectively, but it was estimated that the amount spent on armaments would raise that figure close to 12% in 1999. Eritrea planned to finance the war partly from donations from its citizens abroad plus revenues from increased taxes and treasury bonds (Omitoogun, 2000:296).
- In Burundi, Namibia, and Cape Verde in 1999, defence imports alone exceeded the total defence budget and reported military expenditure (from WMEAT data 2002). In the case of Namibia, this corresponded with its involvement in the DRC conflict.

The lack of controls, transparency, and accuracy in these and other examples create an environment where corruption can flourish. Box 2 highlights some of the budgeting problems suffered by Kenya in recent years.

²⁷ Omitoogun 2000, cf Hartley 2007

Box 2

Case Study: Kenya

According to SIPRI's 2006 volume *Budgeting for the Military Sector in Africa*, edited by Omitoogun and Hutchful, despite an impressive legal and administrative framework for defence budgeting, numerous problems arise in practice in relation to Parliamentary ineffectiveness in oversight, poor control of off-budget expenditures, and inadequate procedures in procurement.

Kenyan military expenditure between 1990 and 2004 has been between US\$150 million and US\$390 million per year (constant 2003 prices and exchange rates), amounting to between 1.4% and 2.9% of Kenya's GDP annually (data from Omitoogun and Hutchful 2006:108). The defence budget often appears neither transparent nor accountable. Kenya has no official defence policy so there is no documented basis for military budgeting, and oversight of military budgeting by Parliament is limited by the perception that military matters are state secrets; the practice of Parliament's oversight function is weak, despite a strong legal framework for obtaining and accounting for military funds and which provides for transparency in the military budgeting process (Omitoogun and Hutchful 2006: 116-117). This weakness is argued to arise from inadequate or absent information on budget and financial matters across government departments, including the Department of Defence, and the costs of both obtaining and analysing material and information related to military expenditures (Omitoogun and Hutchful 2006:117-118).

In recent years, Kenya has sought to overcome some of the budgeting problems through introducing a medium-term expenditure framework. Over time, this has the potential to improve planning and budgeting in military expenditures. However, at present, the budgeting framework has not yielded a means of preventing off-budget and extra-budgetary defence spending (Omitoogun and Hutchful 2006:119), which would inflate the size of the recorded military budget above the levels reported above. The problems are compounded by difficulties presented by Kenya's role as a major contributor to regional and UN peacekeeping missions, as the Department of Defense does not provide a separate or special budget to meet these costly undertakings (Ibid.).

Of most concern, however, is the lack of adequate procedures to maintain integrity in the procurement process, with Omitoogun and Hutchful (2006: 117) stating:

"The ingrained negative attitude towards military matters, including budgeting, is compounded by the improper application or complete negation of formal rules on tendering and contract award, widespread corrupt practices, and gross indiscipline in the public sector".

Omitoogun and Hutchful (2006:119) further state:

"An October 2003 IEA report on budget transparency in Kenya concluded that the procurement procedure is ineffective because of a lack of transparency and openness, corruption, overpricing and outright theft. The process continues to be heavily influenced by informal, neo-patrimonial networks in which government officials routinely award contracts to certain favoured firms and individuals. Indeed, some government officials have formed companies with their friends in order to apply for tenders."

Specific examples of corruption allegations from media reports quoted in Omitoogun and Hutchful (2006:119) include inflated contracts for the procurement of Russian military helicopters in 2001, a 2003 procurement of Czech military aircraft, and corruption allegations in a US\$100 million purchase of military communication equipment."

Finally, in the Anglo-Leasing dossier, John Githongo (2006) also documented substantial problems in a series of security contracts, highlighting specifically contracts for naval purchases, involving non-existent companies in which the apparent purpose of the fraudulent contracts was to provide funding for political campaigns, and implicated several senior Ministers in the ruling party. John Githongo's dossier is available at http://news.bbc.co.uk/1/shared/bsp/hi/pdfs/09_02_06_kenya_report.pdf.

5.3 Offsets

Offsets, although rare in most Sub-Saharan African countries with the exception of South Africa, are a common feature of the defence sector and are fast proliferating. They involve the exporting country or company agreeing to reinvest a proportion of the value of a deal back into the importing country, either through manufacturing some or all of the weapons in the importing country (direct offsets), investment in other sectors (indirect offsets), or barter for goods (counter trade).

The use of offsets is banned by international trade agreements in most sectors²⁸, but is still permitted in defence. While there is a substantial economic literature on the potential merits and disadvantages to offsets programmes, the corruption risk presented by offsets has for the most part been neglected until recent consideration by Transparency International²⁹. Corruption risk in offsets arises from the following:

- Offsets can divert attention from the need for the equipment
- The management of offsets receives less attention and scrutiny than the main contract
- The status of offsets in the evaluation can be unclear
- Offsets are often poorly controlled
- Offsets agreements introduce more partners to contracts and these often receive very little scrutiny, which increases the potential for corruption.

It is possible that offsets can improperly influence the need for a capability, can influence the competitive decision in non-transparent ways, and can allow favours to be made and repaid.

By adding another level of opacity to contracts, offsets make it more difficult for civil society, the media, or parliamentarians to scrutinise transactions and understand whether they represent sensible decision-making and value for money. Offsets are difficult to monitor and audit because monetary values are frequently misleading and deals take a long time to negotiate or conclude. In such environments, the opportunity for corruption increases.

The purported values of an offset stated at the outset of an agreement are rarely realised. Offsets are designed to generate foreign exchange necessary to make purchases. However, as Sue Willett (2007a) explains, problems and delays occur as co-ordination between the officials responsible for

²⁸ Article XVI of the WTO Plurilateral Agreement on Government Procurement

²⁹ Transparency International (UK) (2008a) 'Offsets and Corruption Risk', Paper Presented at Global Industrial Cooperation Conference, Seville, Spain, 12-14 May 2008, http://www.defenceagainstcorruption.org/index.php?option=com_docman&task=doc_download&gid=109

implementation and the contracting companies is often lacking, there are no penalty clauses in the case of non-fulfilment, and the lack of technological infrastructure often mitigates against the successful absorption of technology by any but the most technologically competent companies. Offsets in general are non-comparable and non-transparent arrangements, in which the potential for corruption is extensive.

At present, the use of offsets is not widespread in Sub-Saharan Africa, as is made clear in Professor Hartley's report. The main exception to this is the case of South Africa, which has a Defence Industrial Base and therefore makes extensive use of offsets programmes, as is explored in Box 3.

Box 3

Case study: South African offsets

In September 1999, the South African government approved a R29.9 billion defence procurement package with an offset programme over a period of 8-14 years which was initially estimated to create 65,000 jobs. The deal involved purchases of warships, submarines, and aircraft from Germany, Sweden, Italy and the UK. The offset package comprised 20% direct defence offsets, 45% indirect civil and 35% inward investment. One study by Dunne and Lamb (2004) concluded that,

"The purported economic benefits of offsets have been questioned and what little empirical evidence had been available already suggested that they tend to have a much smaller impact on the local economy than is usually promised... It is also unclear whether the work attached to offsets is genuinely new work and whether it is sustainable once the term of the arms deal expires. Thus, there are considerable doubts about whether South Africa as a whole has or will benefit from the deal".

(Dunne and Lamb, 2004:292)

A further study by Haines (2004) concluded that "...employment creation by offset projects is limited, particularly in peripheral regions" and that there was evidence of substantial hidden costs associated with offsets (Haines, 2004:312).

This offsets programme has attracted allegations of irregularities and corruption. Corruption charges were made against senior state officials involved in negotiating the arms deal. A government investigation team found irregularities and improprieties in the conduct of certain government officials, but they found no evidence of improper or unlawful conduct by the government (Le Roux, 2006:222-223). Nonetheless, questions over alleged corruption in the offset package and the wider defence deal are routinely featured in the popular media in South Africa.

Counter-trade³⁰ is far more common than offsets in defence transactions in SSA. The advantage of counter-trade is that it cuts out the need for foreign exchange. This type of transaction takes various forms including:

- Barter: This relates to the direct exchange of goods where no cash is involved. Although barter is as old as trade itself, contemporary barter deals are more common than is often realised. State-to-state

³⁰ These comments on counter-trade are taken from Willett 2007a

transactions between African governments often involve barter. For example, Zimbabwe Defence Industries supplied the Democratic Republic of Congo armed forces with light weapons in exchange for mineral concessions. Angola was also thought to benefit from mineral concessions extended by President Laurence Kabila in exchange for military assistance. Also, in Uganda's widely publicised purchase of 'junk' helicopters from Belarus in 1997³¹, coffee was used as a form of payment.

- Counter-purchase: This form of exchange commits the seller to purchase a compensatory amount of commodities. Perhaps the most widely known example of such an arrangement outside of Sub-Saharan Africa is the series of contracts known as Al-Yamamah between BAE Systems, the UK, and Saudi Arabia, in which payments for defence equipment were made in barrels of oil. In the context of developing countries this normally involves primary commodities. The contractor can either market these counter-purchased goods themselves or employ a specialist commodity broker to do the job for them. Defence firms do prefer to avoid counter-purchases where possible because they inevitably incur extra transaction costs.

Offsets and counter-trade are notoriously difficult to monitor and audit, because the deals are complex, multilayered, take a long time to negotiate and are subject to fluctuations in currency rates and/or commodity prices. This ambivalence provides ample opportunity to load deals with bogus expense claims, 'bonuses', 'incentives' and commissions (Willett 2007a).

5.4 Statistical evidence

There have been few empirical analyses of the relationship between corruption and defence expenditure, but it has not been entirely unconsidered.

Gupta et al. (2000), in an IMF Working Paper, considered the impact of corruption on defence spending and procurement as shares of both GDP and total government spending for 120 countries, with their results suggesting that countries perceived to be more corrupt tended to have higher shares of defence spending in GDP. Their empirical results support the hypothesis that corruption is associated with higher defence spending, and that those countries with high levels of corruption tend to spend more on defence outlays both as a share of GDP and of total government spending. Gupta et al. highlight the particular susceptibility of defence procurement to corruption. One of the policy implications they draw is that anti-corruption programmes which target defence expenditure tend to improve the composition of government spending towards more productive, outlays. Such measures include the introduction of competition, transparency, and oversight in

³¹ See, for example, The Daily Monitor, 'Government moves on junk chopper army officers' (10 December 2003), available at http://www.monitor.co.ug/artman/publish/news/Govt_moves_on_junk_chopper_army_officers_4701.shtml

procurement, and efforts to reduce patronage at the level of officials (Gupta et al. 2000:16).

Delavallade³² (2006) considered the impact of corruption on the allocation of public expenditure for 64 countries, suggesting that public corruption distorts the structure of public spending by reducing the portion of social expenditure and increasing the part dedicated to, amongst others, defence. Additionally, this result held throughout the sample despite the perception that SSA countries have high corruption but low defence spending. Delavallade also suggested empirically that the allocation of public expenditure to defence as a result of corruption increased as GDP per capita increased, which has implications to be addressed in more detail below, and that the extent of accountability and oversight was negatively linked to the allocation of resources to defence.

As part of DFID's efforts to establish evidence on the extent of defence corruption, it commissioned a study in 2007 to extend the analysis of Gupta et al. (2000). The study was undertaken by Hudson and Jones of the University of Bath. Hudson and Jones make four extensions and improvements to the Gupta et al. paper. First, they include data over a longer period and obtain a larger number of observations. Second, they explicitly model the linkage from defence expenditure to corruption in addition to that in the reverse direction. Third, they include a number of additional variables which may clarify the analysis. Fourth, they model explicitly the number of military personnel. The key results are as follows:

- First, **corruption appears to be positively linked to the number of personnel** – however, the evidence suggests this relationship is non-linear, and further research is needed to understand the nature of this relationship
- Second, **given the number of military personnel, higher corruption appears to be linked to lower military expenditure** – this result is surprising and contrary to Gupta et al.'s conclusions
- Third, **defence imports appear to be positively linked to corruption** – this is consistent with Gupta et al.'s results, and holds even when the sample is reduced only to SSA countries
- Fourth, there is strong evidence of a direct relationship between the amount of military spending per soldier and corruption, and between defence imports and corruption – in both cases, **higher defence expenditure is suggested to lead to greater corruption**

The most surprising result in this paper is the second, which suggests that holding the number of personnel constant, higher corruption appears to be associated with lower military expenditure. A priori, the prediction would be that holding military personnel constant, higher corruption was associated with higher expenditure. That this was not the case requires some explanation. Hudson and Jones suggest that the relationship may owe to inaccurate

³² Delavallade C. 'Corruption and Distribution of Public Spending in Developing Countries', *Journal of Economics and Finance*, Vol. 30 No. 9, 2006

measuring of defence expenditures – reported declines in military expenditure may not reflect real declines in expenditure, which would affect the results. There is some support for this from the data analysis above based on Professor Hartley's and Sue Willett's reports, which considered the extent of off-budget expenditure. Alternatively, Hudson and Jones also suggest that corruption reduces the resources available to government to put to productive use resulting in overall lower government expenditure. Recalling Professor Hartley's report, while SSA defence expenditures as a proportion of GDP were by some measures estimated to be lower than the global average, the estimate on the share of defence expenditure as a proportion of government expenditure was much higher. This presents ancillary evidence for the Hudson and Jones explanation for this surprising result.

The conclusion in Hudson and Jones that defence imports appear to be positively related to corruption was expected and is consistent with previous analysis, which lends to the credibility of the result. That it holds even with limited data and the restriction of the sample to SSA countries is of further importance.

The final results, suggesting evidence of positive relationships between the amount of military spending per soldier and corruption, and between defence imports and corruption, are probably the most important, and point to the need for focused efforts to reduce corruption in the defence sector. Quoting from Hudson and Jones's report,

"The finding of a direct relationship from military expenditure per soldier and also arms imports to corruption is a potentially important result and is one that justifies intervention to attempt to reduce corruption associated with the military, by e.g. initiatives targeted at increasing transparency. Such efforts will reduce expenditure on imports, but increase resources available to the military. In addition, the evidence suggests that there will be knock-on effects of corruption per se with all the impacts this can be expected to have on both the country and the economy.

In our view this is an initiative worth pursuing. Corruption is a crucial issue impacting on both society and the economy and is a key factor in delivering economic progress and poverty reduction to the developing world."
(Hudson and Jones, 2007:4)

6 IMPACT ON DEVELOPMENT

Four broad areas of impact of corruption in low-income countries' defence and security sector are considered: defence expenditures, conflict, effectiveness of defence and security forces, and governance.

6.1 Increased defence spending

Sub-Saharan African countries appear to spend relatively little on defence procurement in absolute terms. The total annual reported aggregate level of defence expenditure in SSA is typically around US\$8-9 billion. Even if the true underlying figure were higher than the reported level, it would likely remain a small proportion of total Sub-Saharan African GDP if taken at the average level, though above the global average. However, within countries, there is substantial variation about the mean. There is also much evidence to suggest that the reported figures are indeed well below actual expenditure. In addition to this, we have evidence from several sources (eg, Gupta et al. 2000; Hudson and Jones forthcoming), quoted above, suggesting an association between defence sector expenditure and corruption, between defence procurement and corruption, and between the amount of military spending per soldier and corruption.

While there is little evidence in the commissioned research of the impact of defence corruption in terms of diversion of resources from development programmes, this was not a research question which DFID commissioned of the authors. However, in the literature quoted above, there was evidence that despite the small recorded shares of defence expenditure as a proportion of GDP in SSA nations, higher corruption distorts the government budget towards sectors including defence (see especially the Gupta et al. 2000 paper and Delavallade 2006). Owing to the endogeneity issues involved in the determination of government budgets and the levels of corruption, the question of diversion is not one easily answered. However, the reports DFID commissioned all commented on the exceptionally poor financial management and budgeting structures and procedures in defence, which suggests the need for intervention here in order for governments to have better and more effective control over their budgets and expenditure.

6.2 Conflict

Above we argued that corruption and conflict have intensive feedback mechanisms, with the opportunities for corruption provided by conflict then creating incentives among beneficiaries of corruption to prolong conflict and to resist efforts at conflict resolution. The extent to which corruption in the defence sector acts to proliferate violent conflict when it becomes entrenched in a security environment is difficult to quantify, given the multifarious situations in which conflict exists. Nevertheless experts working in the security sector in Africa have put their own experience behind this theory.

Potential examples have been identified in Angola, Nigeria and Uganda, though the specific impact of defence corruption has been difficult to disaggregate. Uganda provides an illustrative example (see Box 4).

Box 4

Case Study: Uganda

In Uganda, corruption has been alleged to have a negative impact on its security establishments in the context of the protracted war in the country's North against the Lord's Resistance Army. The impact of corruption may have exacerbated and prolonged the conflict in several ways:

1. Commanders in the conflict have profited from corruption during the conflict, which has produced a substantial conflict of interest. Commanders benefiting from corruption had a material interest in the rebellion's continued proliferation rather than efforts to resolve the conflict (Omitoogun and Hutchful 2006).
2. Funds that should have been spent on the Ugandan army for military equipment and training were wasted through corruption, resulting in a less professional and effective military.
3. The Ugandan army received faulty or unnecessary equipment. A prominent example involved the President's brother reportedly receiving a US\$800,000 commission for the purchase of non-functioning military helicopters.
4. The presence of 'ghost soldiers' on registers of enlisted personnel has resulted in ineffective forces engaging in combat.

6.3 Ineffective armed forces

Corruption increases the cost of defence purchases and reduces their effectiveness; though more may be spent, less security is delivered. African countries need military forces that are appropriate to the realities, needs, and challenges of the continent. These include fast reaction to humanitarian disasters, forceful responses to despotic regimes and warlords, effective support to civil authorities, and the ability to act in concert with one another. With the exception of South Africa, no Sub-Saharan force can conduct the kind of multi-division joint force operations that are needed. The ineffectiveness of African military capabilities has become apparent in the difficulties faced by the African Union in its attempts to create viable African peacekeeping forces to deal with the continent's humanitarian crises, such as Darfur. Where African military forces have been deployed in peace operations such as in the Democratic Republic of Congo, Burundi, and Sierra Leone, they have been dependent on donors for funding, strategic transport, and logistic sustainability and support. Nigeria for example is a major contributor to UN- and AU-led peace support operations. The Nigerian Air Force is the largest in West Africa, with about 100 fighter aircraft including Jaguars, MiG 21's, Dassault Alpha Jets, Antonov bombers, and C130 transport aircraft. With the exception of the C130s, almost all of the aircraft are grounded through lack of spare parts.

Small-scale corruption enacted by ordinary soldiers and junior officers is often an indirect outcome of the large-scale corruption being conducted by senior officers, government officials, and politicians. Siphoning military expenditures into private bank accounts and the misuse and maladministration of existing budgetary resources leaves inadequate allocations for the pay and allowances of the ordinary soldier. Soldiers also lack resources for adequate training, decent living, and working conditions, and medical services. The erratic nature of military budgeting and disbursements means that soldiers can go without pay for months on end, leading to a severe sense of grievance. This was reported to be the case for Ugandan forces in the 1990s³³.

Some African armed forces are so poorly funded that personnel are obliged to turn to petty commerce and/or crime, to augment their wages. In Burundi soldiers have been reported to impose taxes on farmers and levies on border trade. In Equatorial Guinea, soldiers and gendarmes set up road blocks and intimidate people with violence if they refuse to pay bribes. In the Niger Delta, Nigerian officers of the Joint Task Force are reportedly involved with the criminal gangs engaged in the illegal bunkering of oil. In Eastern DRC soldiers and rebels alike prey upon miners, imposing taxes which they trade for basics such as food, clothes, boots and medicines. In such circumstances the uniform becomes synonymous with power, brutality and corruption. Stolen goods fund further illicit and inappropriate defence purchases, and the civilian population comes to live in fear of soldiers who have become synonymous with threat and insecurity.

6.4 Governance

Owing to the lack of transparency in African military funding, large defence deals arouse suspicion amongst publics. Discussion of military spending in Africa frequently results in accusations of corruption, many of which may be well-founded, and undermine the government's relationship with the public and donors. An example is the Tanzanian air traffic control system discussed in Box 1, which has continued to damage the reputation of the Tanzanian government in the eyes of its people and donors (Willett 2007a).

Similarly, the South African defence purchase from 1999, discussed in Box 2 and in more detail in Section 6.2.1, has led to a considerable loss of legitimacy for the African National Congress (ANC). The prospects for democratic control over the military improve when there is a genuine shift in political power from military to civilian authority. In 1994 South Africa emerged as a notable example of a country that made a relatively smooth transition from its militaristic apartheid past to a more open and democratic system of governance. A key feature of this transition was the establishment of procedures for greater democratic control, accountability, and transparency of the security sector by government, Parliament and political and civil society. Responsible ministers and top managers within the Ministry of Defence

³³ See Tigri R. and A. Mwenda 'Military corruption & Ugandan politics since the late 1990s', *Review of African Political Economy*, 2003, for various examples of this

provided leadership in the process of introducing efficient and effective defence management systems. Moreover, cooperative relations between the military, Ministry of Defence officials and politicians, and civil society were nurtured to develop and build trust in order to overcome the adversarial and antagonistic relationships that had traditionally dominated civil-military relations in South Africa. Much of the hard work in building these bridges and instituting far-reaching reforms in defence management have been undermined by the allegations surrounding the 1999 defence purchase (Willett 2007a).

6.4.1 Defence Corruption and Political Parties

Outside of Sub-Saharan Africa, the best documented example of defence corruption being used to finance ruling parties in re-election campaigns concerned President Alberto Fujimori in Peru over 1990-2000³⁴. Vladimiro Montesinos, the Chief of Intelligence in Peru under the Fujimori governments, engaged in widespread corruption over the period including as a means of funding the re-election of President Fujimori. As part of these efforts to re-elect the President, Montesinos used diverted funds to bribe election officials in order to rig the results. Montesinos diverted resources from the national intelligence service and from the Ministry of Defence and each of the three service branches (Army, Air Force, Navy); of the US\$66,500,000 diverted to Montesinos's budget over the 1992-2000 period, US\$40,400,000 was diverted from the Ministry of Defence. The Montesinos case is startling because of the meticulous records he kept of all the dealings, which allows the full network of corruption and the process involved to be analysed – his intention was to ensure that should he ever be detected, he would be able to implicate all those involved.

In Sub-Saharan Africa, there have been at least three cases of allegations of defence and security sector corruption funding re-election campaigns in recent years, in Kenya, South Africa, and Uganda, the first two of which at least have been substantial.

The first concerns the case of Kenya, which was detailed by John Githongo in his dossier³⁵ when he resigned from the Kenyan Government. The Anglo Leasing Scandal concerned a series of security sector contracts, initially to replace the passport printing system but also encompassing naval purchases, in which corruption was alleged by Githongo to have been rife, ostensibly with the intention of funding the government's 2005 Constitutional Referendum and the 2007 Re-election Campaign. Githongo alleged that the series of contracts, in which fictitious companies were established for the purpose of securing government contracts, were designed to provide the funding required for the political campaigns.

The second case concerns the South African defence purchase of 1999, which has implicated a series of senior figures, including the current President

³⁴ The information in this paragraph is based mainly on the account contained in McMillan J. and P. Zoido, 'How to Subvert Democracy: Montesinos in Peru', April 2004

³⁵ John Githongo's dossier can be viewed at http://news.bbc.co.uk/1/shared/bsp/hi/pdfs/09_02_06_kenya_report.pdf

of the African National Congress Jacob Zuma, who is expected to become President of the Republic of South Africa.

In the 1995 Defence White Paper, the South African Ministry of Defence highlighted the need to re-equip the Security and Defence Forces (SANDF) to meet the national-security needs of the new democracy. This resulted in the Strategic Arms Procurement Package which was signed off in December 1999 costing R30 billion (in 1999 prices about US\$4.8 billion). At the time the package was heavily criticised as unnecessary and came amidst the abandonment of the Reconstruction and Development Programme (Willett 2007a).

The allegations in the 1999 purchase focus in part on the role the alleged bribes involved in the purchases were believed to play in funding the ANC's re-election campaign in 1999³⁶. Andrew Feinstein, a former ANC MP who resigned following the ANC's failure to allow an independent enquiry into the defence purchase, claims that the defence purchase and the corruption allegations surrounding it represent the start of a series of other corruption scandals involving the ANC and government contracts and accused the party as having lost its moral compass³⁷. Feinstein also maintains that the R1.7bn surplus currently held by the ANC may reflect the remains of payments made to the party during the 1999 defence purchase³⁸.

³⁶ This allegation has been made in numerous newspaper articles; Andrew Feinstein also addresses it in detail in Feinstein A. (2007) *After the Party*, Johannesburg: Jonathan Ball Publishers, pp 81-83, 155, 177

³⁷ *Ibid.* pp 240-244

³⁸ Politics Web, 'Feinstein calls for new investigation into arms deal', 13 June 2008, <http://www.politicsweb.co.za/politicsweb/view/politicsweb/en/page71627?oid=91855&sn=Detail>

7 CONCLUSION

Despite the poor quality of data, and limited analysis and research in this area to date, there is a growing body of evidence to suggest corruption in defence and security expenditures and procurement is widespread in Sub-Saharan Africa. From the literature, there was evidence of a negative impact of defence corruption on levels of social spending. From both commissioned research and the literature there is evidence of substantial adverse impacts of defence corruption on the prolonging of conflict, the quality of security provision, and the deleterious effects on governance. Each can reasonably be argued to have detrimental impacts on populations in developing countries and on wider development outcomes. Publics lose trust in their governments, and corrupt officials and politicians cement their positions through patronage and through grand corruption, creating a vicious feedback mechanism which erodes governance and democratic life. The security services which protect the civilian population and guarantee human security become ineffective at best, and at worst predatory. In the long term, corruption in the defence and security sectors can have a negative impact on economic activity, causing economic development and growth to suffer.

The evidence suggests combating defence corruption may warrant becoming an active area of engagement on the part of development agencies. Owing to the limitations of much of the data, further detailed study in collaboration with governments in Sub-Saharan Africa to explore the challenge of corruption in defence establishments and in finding practical ways of reducing its impact should be conducted, with a view to informing the development of future initiatives of engagement in this area. Previous efforts in other high-profile industries, based on experiences with programmes such as the Extractive Industries Transparency Initiative (EITI) and the Kimberley process in the diamond industry, suggest there is much scope for collective action from national governments, multilateral development agencies, private companies, and NGOs to have a significant impact in improving development outcomes.

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ANNEXE 1 – DEFENCE EXPENDITURES AS SHARES OF GDP AND GOVERNMENT EXPENDITURE IN SUB-SAHARAN AFRICA, FROM HARTLEY (2007)

Table 1. SSA Defence Spending: Levels and Shares of GDP, 2005/06

Nation	Defence Spending (US\$ mn)	D/Y (%)	Nation	Defence Spending (US\$ mn)	D/Y (%)
Angola	1654	5.7	Liberia	(55.4)	(7.7)
Benin	44.7	NA	Madagascar	52.9	1.1
Botswana	313	3.0	Malawi	(13.9)	(0.7)
Burkina Faso	82.2	1.3	Mali	130	2.3
Burundi	46	6.2	Mauritania	62.9	3.6
Cameroon	243	1.3	Mauritius	12.3	0.2
Cape Verde	(6.8)	0.7	Mozambique	55.4	0.9
Central African Republic	15.4	1.1	Namibia	197	3.2
Chad	55.3	1.0	Niger	(35.2)	1.2
Congo, Republic of	79.2	1.4	Nigeria	724	0.7
Congo, DRC	146	2.4	Rwanda	63.2	2.9
Cote d'Ivoire	(247)	(1.5)	Senegal	145	1.5
Djibouti	(27.5)	(4.2)	Seychelles	14	1.8
Equatorial Guinea	NA	NA	Sierra Leone	13.2	1.0
Eritrea	(230)	(24.1)	Somalia	NA	NA
Ethiopia	316	2.6	South Africa	3610	1.5
Gabon	112	1.5	Sudan	(502)	(2.3)
Gambia	(2.1)	0.5	Swaziland	(48.8)	1.8
Ghana	83.1	0.7	Tanzania	149	1.1
Guinea	(63)	2.0	Togo	33.2	1.5
Guinea-Bissau	12.1	4.0	Uganda	191	2.3
Kenya	315	1.7	Zambia	(155)	2.3
Lesotho	33.6	2.3	Zimbabwe	132	2.3

Notes: (i) NA is not available.

(ii) Defence spending: figures in brackets are for latest data but before 2005.

(iii) Defence spending: all other data are for 2005 or 2006 where 2006 data are available.

iv) Defence spending in US\$ million at constant 2005 prices and exchange rates

v) D/Y is defence spending as share of GDP. Figures are for 2004 or 2005 where 2005 data are available. Figures in brackets are for pre-2004 as the latest data.

Source: SIPRI (2007)

Table 2. Defence share of Government spending, 1990 – 1999

Defence share of government spending (%)

Nation	1990	1999	Nation	1990	1999
Angola	39.8	41.1	Kenya	9.8	7.1
Benin	(19.4)	8.3	Lesotho	17.1	6.5
Botswana	10.8	9.8	Liberia	NA	8.3
Burkina Faso	17.5	5.9	Madagascar	6.9	7.4
Burundi	12.7	26.7	Malawi	4.8	2.2
Cameroon	8.1	10.6	Mali	(8.6)	8.7
Cape Verde	(2.8)	2.2	Mauritania	12.3	18.9
Central African Republic	(6.6)	15.4	Mauritius	1.5	0.9
Chad	16.5	12.7	Mozambique	NA	9.1
Congo, DR	(16.1)	NA	Namibia	5.9	7.2
Congo, Rep of	11.1	8.4	Niger	(8.4)	6.4
Djibouti	20.1	12.7	Nigeria	7.6	8.1
Equatorial Guinea	NA	16.5	Rwanda	19.8	22.7
Eritrea	(34.6)	(51.1)	Senegal	(6.3)	8.2
Ethiopia	39.8	29.1	Sierra Leone	20.8	13.5
Gabon	13.7	7.3	Somalia	NA	NA
Gambia	5.1	5.4	South Africa	12.6	5.0
Ghana	3.4	3.1	Sudan	(61.5)	46.8
Guinea	5.0	7.4	Swaziland	6.6	4.6
Guinea-Bissau	(4.0)	6.1	Tanzania	8.7	10.1
Ivory Coast	(3.9)	3.4	Togo	14.0	9.4
			Uganda	25.9	13.9

Note: NA = not available; figures in brackets are for nearest year to 1990 (eg. 1989 or 1991). WMEAT data not published after 2002.

Source: World Military Expenditures and Arms Transfers (2002), US Department of State

ANNEXE 2 – TYPOLOGY OF OFF-BUDGET MILITARY EXPENDITURE, FROM WILLETT (2007a)

An unintended consequence of attempts to control 'excessive' military expenditure can be to push aspects of military spending off-budget. Off budget funding has become the principle means through which arms are procured, with its secrecy and shadowy nature creating ample opportunities for corruption. A variety of off-budget mechanisms have evolved, including the following:-

Asset transfers: The redistribution of existing assets to the benefit of the armed forces which may involve the reallocation of resources from other budgetary headings or state revenues. Examples include the Ugandan government's initial allocation of resources to the police budget, later redirected to the military, to augment the costs of the campaign against the Lords Resistance Army in the north of Uganda (Omitoogan 2003). During the border war between Eritrea and Ethiopia over 1998-2000, Ethiopia diverted the proceeds of the privatisation of state companies to fund its war effort, in particular the \$300m purchase of Sukoi 27s from the Russians (Renton et al. 2007).

Natural resource predation: The pillage of natural resources such as diamonds, copper and coltan, oil, and timber and the use of revenues for arms procurement and the personal gain of warlords and generals alike is well documented in the DRC, Liberia, Sierra Leone and Angola is well documented (Renton et al 2007, Global Witness various, UN Security Council 2003). In Nigeria the notoriously corrupt cash-call system that operated in the state owned oil industry is thought to have funded Nigeria's role in the Economic Commission of West African States Monitoring Group (ECOMOG) operations in Liberia and Sierra Leone between 1990 and 1999. The figures for these 'peace' operations did not appear in Nigeria's defence accounts, but are thought to have cost an estimated \$12bn (Adekanye 1999). In Angola it has been estimated that as much as a billion dollars a year of state oil revenues have been siphoned off into shell companies for use in a tangled web of corruption and back room arms deals (Global Witness 2004). In the DRC \$80m were appropriated from the state owned diamond mining company (MIBA), of which \$20 m is thought to have been used to buy weapons from Ukrainian and Czech arms suppliers (Africa Confidential June 2004).

Taxes and levies: Soldiers and rebel groups often augment their wages and raise money for weapons through the imposition of informal taxes and levies and other illegal activities. Warlords in Somalia organized 'tax zones' to raise resources to prosecute their clan wars. In Burundi soldiers augment their wages by imposing taxes on farmers' crops and levies on border trade (Nimubona et al. 2007). Soldiers employ road-blocks all over Africa to extract payments to embellish their paltry wages.

Illegal trade: In the Niger Delta officers in the Joint Task Force are reportedly involved in the criminal gangs who are engaged in the illegal bunkering of oil (Africa Confidential 2007). Some 30,000 – 100,000 barrels of oil are stolen

each day; the revenue from oil is thought to buy arms for the militias (Africa Confidential Vol 46, No 25, 2005) West Africa has become a major exporter of cocaine. It is not produced in the region, but the networks between Colombia and Venezuelan drug barons and their West African business partners, which include senior military officers and government officials, have established complex and lucrative transshipment operations along the West African seaboard. The President and senior military officers in Guinea Bissau are thought to be at the center of the cocaine trade in West Africa (Africa Confidential 2007).

The diversion of humanitarian assistance and aid: Relief for the victims of armed conflict – refugees and internally displaced people – has opened further opportunities for corruption within the military. In southern Sudan, 'redeeming' or the buying back of slaves, a campaign that raised millions of dollars in charity in the United States and other developed countries, was rife with corruption. Commanders of the Sudan People's Liberation Army reportedly pocketed much of the money paid to buy captives' freedom, and in some cases passed off free men and women as slaves in order to keep the payments coming. Ethiopia is thought to have diverted humanitarian aid to procure weapons in the build up to its border war with Eritrea.

External military assistance: External powers are often implicated in supplying arms, or other forms of military assistance to neighbouring states involved in conflict. For example in the civil war in the Republic of Congo 1993-2002 Angola and Chad provided military assistance to President Sassou Nguesso. In the DRC Laurent Kabila received military assistance in the form of arms, training and supplies by neighbouring states Zimbabwe, Angola, Namibia and in the early days Rwanda and Uganda. More recently in 2007 there have been reports of arms being supplied to government forces on the one hand and militias on the other in Somalia in violation of the UN arms embargo. These arms transfer, appear to be motivated by the ideologies of the 'war on terror'.

Diaspora contributions: Funds raised from diasporas are another means of augmenting 'off-budgetary' resources. Eritrea was reported to have raised \$400 million for its war effort, in donations from the Eritrean diaspora (The Economist 1999). Parts of these funds are thought to have been used to purchase MiG 29s from the Ukrainians.

Peacekeeping: Volunteering soldiers for UN or African Union peacekeeping operations (PKOs) is another means of generating extra funds. Ethiopia, Ghana, Nigeria, Kenya, Mozambique, Namibia, Senegal, South Africa, Uganda and Zimbabwe are among those countries that have volunteered for PKOs. Rarely do UN payments for these forces appear in annual military budgets. The failure to declare payments offers opportunities for corruption. In certain cases corrupt military officers have banked soldiers pay (Hutchful 2003). During Nigeria's involvement in ECOMOG missions in West Africa generals benefited from revenues written off as expenses (Adebayo 2002). Millions of dollars were diverted into private bank accounts under this ruse.

Prolonged Conflict: Many conflicts in Africa are purposefully prolonged by the military and rebels alike, because the conditions of instability enable warlords and generals to rob their nations of resources and funds. At the same time plundered resources provide the income with which militias and the armed forces are able to purchase arms so that they can continue to prosecute war.

ANNEXE 3 – THE UK AND SUB-SAHARA AFRICA



